

**HEARING DATE AND TIME: October 27, 2011 at 10:00 a.m. (Eastern Time)**  
**RESPONSE DEADLINE: October 19, 2011 at 4:00 p.m. (Eastern Time)**

REED SMITH LLP  
599 Lexington Avenue  
New York, NY 10022  
Telephone: (212) 521-5400  
Facsimile: (212) 521-5450  
Eric A. Schaffer  
Michael J. Venditto

*Counsel for The Bank of New York Mellon  
Trust Company, N.A., as indenture trustee*

**UNITED STATES BANKRUPTCY COURT  
SOUTHERN DISTRICT OF NEW YORK**

In re:	Chapter 11 Case No.
LEHMAN BROTHERS HOLDINGS INC., <i>et</i>	08-13555 (JMP)
<i>al.</i> ,	(Jointly Administered)
Debtors.	

**RESPONSE OF THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,  
AS INDENTURE TRUSTEE, TO DEBTORS' ONE HUNDRED NINETY-FIRST  
OMNIBUS OBJECTION TO CLAIMS (VALUED DERIVATIVE CLAIMS)**

The Bank of New York Mellon Trust Company, N.A. (the "Trustee"), formerly known as The Bank of New York Trust Company, N.A., as indenture trustee, by its undersigned counsel, hereby responds to the *Debtors' One Hundred Ninety-First Omnibus Objection to Claims (Valued Derivative Claims)* [Docket No. 19888] (the "Objection"), and states as follows:<sup>1</sup>

**FACTUAL BACKGROUND**

1. The Trustee is indenture trustee under the Trust Indenture, dated as of August 1, 2007, between the Michigan Finance Authority (the "Authority"), formerly known as

---

<sup>1</sup> The Trustee is filing this response at the request and direction of the Michigan Finance Authority.

the Michigan Tobacco Settlement Finance Authority, and the Trustee, pursuant to which the Authority issued its Tobacco Settlement Asset-Backed Bonds, Series 2007 (the “Bonds”).

2. In connection with the issuance of the Bonds, the Trustee entered into a Reserve Fund Agreement (the “Reserve Fund Agreement”), dated August 20, 2007, with Lehman Brothers Special Financing Inc. (“LBSF”). LBSF’s obligations to the Trustee under the Reserve Fund Agreement were guaranteed by Lehman Brothers Holdings Inc. (“LBHI”) pursuant to a Guarantee (the “Guarantee”), dated as of August 20, 2007.

3. On September 22, 2009, the Trustee, at the request of the Authority, filed the following proofs of claim in the above-captioned case: (i) Claim No. 29721 in the amount of \$4,722,320.00, relating to LBHI’s obligations under the Guarantee; and (ii) Claim No. 29748 in the amount of \$4,722,320.00, relating to LBSF’s obligations under the Reserve Fund Agreement (together, the “Proofs of Claim”).

4. On September 12, 2011, LBHI, LBSF, and their affiliated debtors (collectively, the “Debtors”) filed the Objection seeking the reduction and allowance of the Proofs of Claim based upon the unsupported conclusion “that the amounts listed on the proofs of claim are greater than the fair, accurate, and reasonable values determined by the Debtors after a review of the claimant’s supporting documentation and the Debtors’ books and records.”

Objection at ¶ 11.

### **RESPONSE**

5. A claim is deemed allowed unless a party in interest objects. 11 U.S.C. § 502(a); see Fed. R. Bank. P. 3001(f) (a properly executed and filed proof of claim constitutes “prima facie evidence of the validity and amount of the claim.”). This Court has explained the locus of the burden of proof in relation to claims litigation as follows:

A proof of claim is prima facie evidence of the validity and amount of a claim, and the objector bears the initial burden of persuasion. The burden then shifts to the claimant if the objector produces 'evidence equal in force to the prima facie case ... which, if believed, would refute at least one of the allegations that is essential to the claim's legal sufficiency.' When the burden is shifted back to the claimant, it must then prove by a preponderance of the evidence that under applicable law the claim should be allowed.

In re Oneida, Ltd., 400 B.R. 384, 389 (Bankr. S.D.N.Y. 2009) (citations omitted); see In re Allegheny Int'l, Inc., 954 F.2d 167, 173-74 (3d Cir. 1992).

6. An objecting party cannot overcome the *prima facie* validity of a properly filed proof of claim merely by stating that the claim is too large; the evidence supporting the objection must rise to the level of the evidence submitted in the proof of claim. See In re Jensen, Case No. 09-14830 (MG), 2010 Bankr. LEXIS 229, \*7-8 (Bankr. S.D.N.Y. Feb. 3, 2010) ("The party objecting to the claim has the burden of introducing evidence sufficient to rebut the presumption of validity. Debtor must marshal evidence sufficient to demonstrate a true dispute with probative force equal to the contents of the Claim.") (citations omitted); In re Smith, 419 B.R. 622, 627-28 (Bankr. E.D. Va. 2008) (the "mere filing of an objection" is not sufficient to overcome the initial presumption).

7. In the Objection, the Debtors failed to offer any evidence negating the allegations set forth in the Trustee's properly filed Claims. The Objection fails to raise or identify any issue of law or fact to call into question the validity, enforceability, or amount of the Claims, which are supported by the documents filed with the Claims and by the questionnaire responses submitted separately to the Debtors in accordance with the Court's *Order Pursuant to Section 502(b)(9) of the Bankruptcy Code and Bankruptcy Rule 3003(c)(3) Establishing the Deadline for Filing Proofs of Claims, Approving the Form and Manner of Notice Thereof and Approving the Proof of Claim Form* [Docket No. 4271]. Indeed, the Debtors do not even proffer

an alternative calculation of the Claims to support the reduced amounts listed in the Objection. Rather, the Debtors merely state that they undertook a wholly self-serving process to determine that the amounts set forth in the Claims are too high. See Objection at ¶ 14-16. After requiring extensive evidence to support the Claims, the Debtors should not be permitted to substantially reduce the Claims without providing any evidence in rebuttal. See In re Cluff, 313 B.R. 323, 339 (Bankr. D. Utah 2004) (“One rebuts evidence with counter-evidence, not merely a statement in a pleading that the proof of claim is not properly documented. Once a claim is afforded *prima facie* validity as to liability and amount, that evidence is strong enough to prevail over a mere formal objection without more.”).

8. Moreover, the Reserve Fund Agreement, which governs the calculation of the termination amount, specifically states that the termination amount determined by the burdened party (the Trustee) is final, absent manifest error. The amounts of the Claims are supported by a termination valuation report prepared by PFM Asset Management LLC, which was engaged by the Authority as an independent advisor to calculate the termination value of the Reserve Fund Agreement. The Trustee received a copy of the report from the Authority and submitted it as an attachment to the Claims.<sup>2</sup>

9. The Claims are sufficient to support allowance on their face, and nothing in the Objection provides any basis for the Court to reduce or disallow the Claims or to shift the burden to the Trustee. Accordingly, the Court should overrule the Objection as it relates to the Claims and enter an order allowing the Claims in full.

---

<sup>2</sup> The Authority has since delivered to the Trustee a copy of a revised and updated termination valuation report, dated as of October 17, 2011, which is attached hereto as **Exhibit A**.

10. The Trustee reserves all of its rights with respect to the Claims under applicable law and procedural rules, including but not limited to the right to supplement this response in connection with any further objection of the Debtors or otherwise.

WHEREFORE, the Trustee respectfully requests that this Court overrule the Objection in its entirety as it relates to the Claims and enter an order allowing the Claims in full and granting to the Trustee such other and further relief as is just and appropriate.

Dated: October 19, 2011  
New York, New York

Respectfully submitted,

REED SMITH LLP

By: /s/ Michael J. Venditto  
Eric A. Schaffer  
Michael J. Venditto  
599 Lexington Avenue  
New York, NY 10022  
Telephone: (212) 521-5400  
Facsimile: (212) 521-5450  
Email: eschaffer@reedsmith.com  
mvenditto@reedsmith.com

*Counsel for The Bank of New York Mellon  
Trust Company, N.A., as indenture trustee*

**Exhibit A**

Forward Delivery Agreement Termination Valuation

(Attached)

# Forward Delivery Agreement Termination Valuation

October 17, 2011

## Michigan Finance Authority

Reserve Fund

*Tobacco Settlement Asset-Backed Bonds, Series 2007*



**PFM Asset Management LLC**

One Keystone Plaza, Suite 300 | North Front & Market Streets | Harrisburg, PA 17101  
Phone: 717-232-2723 | Facsimile: 717-232-7837 | [www.pfm.com](http://www.pfm.com)

Michigan Finance Authority

---

This page intentionally left blank.

---

PFM Asset Management LLC



Michigan Finance Authority

---

## **Memorandum**



### **Appendices**

- A. Request for Quotes and Provider Facsimile Quote Sheets
- B. Termination Amount Calculation
  - 1. Citigroup Financial Products, Inc.
  - 2. Morgan Stanley
- C. LIBOR Curve
- D. Application of DEPFA Spread to Remaining Cash Flows

Michigan Finance Authority

---

This page intentionally left blank.

---

PFM Asset Management LLC



One Keystone Plaza, Suite 300  
N. Front & Market Streets  
Harrisburg, PA 17101

717 232-2723  
fax 717 232-7837  
alternate fax 717 233-6073

October 17, 2011

## Memorandum

**To: LAMCO LLC**

Sarah Payne Richard Harper

**From: PFM Asset Management LLC**

Michael Harris Alfred Mukunya Christopher Harris  
*Managing Director Senior Managing Consultant Consultant*

**cc: State of Michigan**

Joseph Fielek  
*Director of the Bureau of State and Authority Finance*

**Michigan Department of the Attorney General**

Jarrold Smith  
*Assistant Attorney General*

**Public Financial Management, Inc.**

Jeanne Vanda  
*Managing Director*

**Robert W. Baird & Co. Incorporated**

Wayne Workman  
*Managing Director*

**Re: Michigan Finance Authority**

Tobacco Settlement Asset-Backed Bonds, Series 2007  
*Forward Delivery Agreement Valuation Analysis*

---

As requested, PFM Asset Management LLC ("PFM") and the State of Michigan (the "State") have outlined the valuation methodology used by the State for the purposes of determining its claim against Lehman Brothers Special Financing ("LBSF") and Lehman Brothers Holdings, Inc. ("LBH", together with LBSF, "Lehman"). The State's claim arose out of LBSF's default under the forward delivery agreement (the "FDA" or the "Agreement") between LBSF and the Michigan Finance Authority (the "Authority", f/k/a Michigan Tobacco Settlement Authority).

---

PFM Asset Management LLC

Michigan Finance Authority  
Tobacco Settlement Asset-Backed Bonds, Series 2007  
Forward Delivery Agreement Valuation Analysis  
October 17, 2011

Page 2

---

For the purposes of this memorandum, the terms “our” and “we” shall refer to the State, its advisors, and counsel.

### **Background**

The Authority entered into the Agreement with Lehman for the investment of the reserve fund (the “Reserve Fund”) associated with the Authority’s Tobacco Settlement Asset-Backed Bonds, Series 2007 (the “Bonds”). In exchange for the investment of the Reserve Fund, the Authority expected to purchase eligible securities consisting of direct obligations of or obligations guaranteed by the United States Treasury, securities issued by any United States government sponsored agency, and/or commercial paper rated “A-1” by Standard & Poor’s (“S&P”), “P1” by Moody’s Investors Services (“Moody’s”), and “F1” by Fitch Ratings (“Fitch”). The Authority expected to purchase these securities at a guaranteed yield of 5.062% on each June 1 and July 1 through 2047.

On September 15, 2008, LBH, the guarantor of LBSF’s obligations under the Agreement, filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the Southern District of New York. As a result, LBH was downgraded to “B3” from “A2” by Moody’s and put on negative watch, and downgraded to “D” from “A” by S&P. Subsequently, on October 3, LBSF also filed for bankruptcy and was downgraded to “C” by Moody’s.

### **Contractual Analysis**

Pursuant to the “Definitions” section of the Agreement, Lehman’s bankruptcy filing rendered it insolvent:

*“Insolvent” means... Lehman or LBH ... shall (1) commence a voluntary case under the federal bankruptcy laws (as in effect on the date of this Agreement or hereafter ), (2) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts...”*

Under Section 7.2(d) of the Agreement, Lehman’s insolvency triggered an Event of Default:

*“Lehman Events of Default. The occurrence of any of the following events shall constitute a Lehman Event of Default...*

*(d) Lehman or LBH is at any time Insolvent ...”*

Section 7.4(c) of the Agreement outlines remedies as a result of a Lehman Event of Default:

*“(c) if such default is a default under Sections 7.2(b), (c), or (d) hereof, immediately terminate this Agreement by giving notice thereof to Lehman, whereupon the Trustee shall determine the Termination Amount ...”*

The Termination Amount is defined as:

Michigan Finance Authority  
Tobacco Settlement Asset-Backed Bonds, Series 2007  
Forward Delivery Agreement Valuation Analysis  
October 17, 2011

Page 3

---

*“an amount, as determined by the Burdened Party reasonably and in good faith on the basis of the arithmetic mean of quotations from at least three Dealers (which quotations and computations shall be made available to the party that is not the Burdened Party upon request) of the amount, if any, that each such Dealer would require the Burdened Party to pay to the Dealer ... or would pay to the Burdened Party ... in consideration of such Dealer entering into an agreement with the Burdened Party ... **which would have the effect of preserving for the Burdened Party the economic equivalent of its rights under this Agreement...** [emphasis added]”*

A discussion of the significance of this language is discussed in the section herein titled “Termination Amount - Calculation Methodology.”

Burdened Party is defined as:

*“...(ii) in the case of a Lehman Event of Default ... the Trustee”*

Dealer is defined as:

*“[a] leading dealer in the relevant markets selected by the Burdened Party in good faith and consented to by the other party (such consent not to be unreasonably withheld) (a) from among dealers of the highest credit standing which satisfy all the criteria that the Burdened Party applies generally at the time in deciding whether to offer or to make an extension of credit and (b) to the extent practicable, from such dealers having an office in the same city.”*

A discussion of the selection of Dealers is described in more detail in the section herein titled “Termination Amount Calculation – Quote Solicitation Process.”

The methodology for determining the Termination Amount is outlined in the Definitions section of the Agreement:

*“...an amount, as determined by the Burdened Party reasonably and in good faith on the basis of the arithmetic mean of quotations from at least three Dealers provided, however, that:*

- (i) if more than three quotations are provided, the Termination Amount will be the arithmetic mean of such quotations, without regard to the quotations having the highest and lowest values,*
- (ii) if exactly three quotations are provided, the Termination Amount will be the quotation remaining after disregarding the highest and lowest quotations,*  
*for purposes of clauses (i) and (ii) if more than one quotation has the same highest value or lowest value, then one of such quotations shall be disregarded, and*
- (iii) if the Burdened Party is unable to obtain three such quotations, the Termination Amount shall be the amount, as reasonably determined in good faith by the Burdened Party, to be the Burdened Party's total losses and costs ... or gains ... in connection with a termination of this Agreement, including any loss of bargain, cost of funding or, at the election of the Burdened Party but without duplication, any loss or cost incurred as a result of its terminating,*

Michigan Finance Authority  
Tobacco Settlement Asset-Backed Bonds, Series 2007  
Forward Delivery Agreement Valuation Analysis  
October 17, 2011

Page 4

*liquidating, obtaining or reestablishing any hedge or related trading position.”*

A discussion of the State’s attempts to fulfill the quote solicitation process is described in the section herein titled “Termination Amount Calculation – Quote Solicitation Process.”

#### **Termination Amount Calculation – Quote Solicitation Process**

The State followed the remedies as outlined in the Agreement by soliciting quotes from participants in the forward delivery agreement market. Historically, the forward delivery agreement market was robust, and it was not uncommon to receive multiple bids. However, the market for forward delivery agreements has become virtually non-existent over the past few years due to the Lehman bankruptcy and as a result of providers being downgraded below acceptable thresholds, electing to leave the municipal reinvestment market entirely, or becoming victim to mergers, acquisitions, or consolidations.

The chart below lists participants in the forward delivery agreement market (both pre- and post-financial crisis), including details on the current status of each provider, whether bids for the Agreement were solicited from each provider, and each provider’s response to the bid solicitation (if applicable):

Provider	Status as of September 19, 2008	Solicited
Bank of America, N.A.	Inactive as of 2007	No
Bear Stearns Capital Markets, Inc.	Inactive – merger with JPMorgan	No
Citigroup Financial Products, Inc.	Active	Yes
DEPFA Bank plc	Active	Yes
JPMorgan Chase	Inactive as of 2007	Yes
Lehman Brothers Special Financing, Inc.	Inactive – Filed for bankruptcy	No
Merrill Lynch Capital Services	Inactive – merger with Bank of America	No
Morgan Stanley & Co, Inc.	Active	Yes
Société Générale, N.A.	Inactive as of 2007	No
SunTrust Bank	Active	Yes
Wachovia Bank, N.A.	Active	Yes

It is our opinion that the quote solicitation process was exhaustive and included all participants in the forward delivery agreement market.

Of the firms solicited, only Citigroup Financial Products, Inc. (“Citi”) and Morgan Stanley & Co, Inc. (“Morgan Stanley”) were able to participate. The results of the bid solicitation process are below:

Provider	Response	Payment (as a spread to LIBOR)
Citi	Payment of \$457,000 from Lehman to the State	LIBOR – 112.28 bps
DEPFA Bank plc	Unable to participate – Verbal Pass	N/A
JPMorgan Chase	Unable to participate - Verbal Pass	N/A
Morgan Stanley	Payment of \$11,445,000 from Lehman to the State	LIBOR + 42.67 bps
SunTrust Bank	Unable to participate - Verbal Pass	N/A
Wachovia Bank, N.A.	Unable to participate - Verbal Pass	N/A

Michigan Finance Authority  
Tobacco Settlement Asset-Backed Bonds, Series 2007  
Forward Delivery Agreement Valuation Analysis  
October 17, 2011

Page 5

The Request for Quotes and Form of Provider Facsimile Quote Sheet are attached hereto as **Appendix A**. Additionally, a translation of the responses from dollar prices into a spread to LIBOR is attached hereto as **Appendix B**.

#### Termination Amount – Calculation Methodology

The Termination Amount language is intended to ensure the Authority is made whole and receives the entire benefit of the above-market rate of the contract. In order to calculate the Termination Amount, we used data points from an issuer (the “Reference Entity”) who performed a termination amount bid solicitation process at the same time as the State. The Reference Entity solicited quotes for a reserve fund associated with a comparable tobacco financing. The Reference Entity’s bond issue matured within 36 months of the State’s issue but was significantly larger; however, the yield of the State’s bonds and the Reference Entity’s bonds have historically traded flat to each other, thereby permitting us to assume credit neutrality when calculating the Termination Amount. Results of the solicitation for the Reference Entity are summarized below in terms of a spread to the LIBOR curve<sup>1</sup>:

Provider	Payment (as a spread to LIBOR)
Citi	LIBOR – 129.44 basis points
DEPFA Bank plc	LIBOR – 26.52 basis points
Morgan Stanley	LIBOR + 8.67 basis points

We then applied the DEPFA Bank plc spread to the remaining cash flows of the Agreement, and determined the Termination Amounts to be as follows<sup>2</sup>:

Provider	Payment (as a spread to LIBOR)	Termination Amount
Citi	LIBOR – 112.28 basis points	\$11,445,000
DEPFA Bank plc	LIBOR – 26.52 basis points	\$4,772,320
Morgan Stanley	LIBOR + 42.67 basis points	\$457,000

Based on this analysis, the State filed a claim in the amount of \$4,772,320. This amount is \$1,178,680 less than the arithmetic mean of the quotations received from the original solicitation process.

We note the Agreement *did not* require the State to accept an offer and/or pay the Termination Amount to the new provider. We believe our approach is conservative and reasonable. Further, we believe the logic behind our approach is accurate and defensible, and, as such, is absent manifest error. We are of the opinion that our determination of the Termination Amount is therefore conclusive and binding on the parties hereto in accordance with the definition of Termination Amount pursuant to pages 4 and 5 of the Agreement.

<sup>1</sup> Attached hereto as **Appendix C**.

<sup>2</sup> Attached hereto as **Appendix D**.

Michigan Finance Authority

---

This page intentionally left blank.

---

PFM Asset Management LLC



Michigan Finance Authority

---

A. Request for Quotes and Provider Facsimile Quote Sheets

Michigan Finance Authority

---

This page intentionally left blank.

---

PFM Asset Management LLC



**The PFM Group**

Public Financial Management, Inc.  
PFM Asset Management LLC  
PFM Advisors

One Keystone Plaza  
Suite 300  
N. Front & Markets Streets  
Harrisburg, PA 17101  
717 232-7837 fax

September 19, 2008

Potential Provider:

PFM Asset Management LLC ("PFM"), as an independent third party, is seeking quotes from entities for the amount, if any, that each such entity would require The Bank of New York Mellon Trust Company, N.A. (the "Trustee") to pay to the entity or would pay to the Trustee in consideration of such entity entering into an agreement with the Trustee (with such documentation as the Trustee and the entity may in good faith agree) which would have the effect of preserving for the Trustee the economic equivalent of its rights under the Agreement for the period commencing on September 19, 2008 and terminating on June 1, 2048.

Information regarding the Agreement can be found in the bidding specifications included with this letter. All capitalized terms not defined herein shall have the definitions as outlined in the Agreement (attached as Exhibit A).

**Quotes will be accepted between 2:25 p.m. Eastern Time and 2:30 p.m. Eastern Time on Friday, September 19, 2008. Quotes should be telecopied to Monique Spyke at PFM, fax: (717) 232-7837, phone: (717) 232-2723, using the Quote Sheet attached as Exhibit B to the Request for Quotes.**

Your quotes should be based on the information provided in this package. If you have any questions or would like more information, please call Monique Spyke (717) 232-2723.

Sincerely,  
PFM ASSET MANAGEMENT LLC

[SIGNED]

Michael W. Harris  
Managing Director

Attachments



**The PFM Group**

Public Financial Management, Inc.  
PFM Asset Management LLC  
PFM Advisors

September 19, 2008

**REQUEST FOR QUOTES**

\$522,991,697  
MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY  
TOBACCO SETTLEMENT ASSET-BACKED BONDS  
SERIES 2007

**SENIOR LIQUIDITY RESERVE ACCOUNT  
FORWARD DELIVERY AGREEMENT**

1. Amounts Invested: Please see Exhibit A for a schedule of Available Amounts.
2. Eligible Securities: Securities in Book-Entry form satisfying each of the following three (3) criteria:
  - (1) (a) obligations of (including obligations issued or held in book-entry form on the books of) the Department of Treasury of the United States of America and obligations, the timely payment of the principal and interest on which are unconditionally guaranteed by the United States Government;
  - (b) notes, bonds, debentures, mortgages and other evidences of indebtedness, issued or guaranteed at the time of the investment by the United States Postal Service, Fannie Mae, FHLMC, FHLB, the Student Loan Marketing Association, the Federal Farm Credit System, the Tennessee Valley Authority, or any other United States government sponsored agency; and
  - (c) commercial paper (including both noninterest-bearing discount obligations and interest bearing obligations payable on demand or on a specified date not more than 270 days after the date of issuance thereof) that is rated "A-1" by S&P, P-1 by Moody's, and "F1" by Fitch, if rated by Fitch, provided that the issuer thereof is subject to U.S. law.
- (2) non-callable,
- (3) that, as of each respective Delivery Date, mature on or before the next succeeding Bond Payment Date.
3. Guaranteed Rate: A rate per annum equal to 5.062% assuming that the interest on the applicable security was compounded semi-annually on the basis of a year of 360 days with twelve thirty day months.
4. Debt Service Payment: (i) A scheduled payment of principal of or interest on the Senior Bonds (as defined in the Indenture), including sinking fund redemptions from sinking

\$522,991,697

MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY

TOBACCO SETTLEMENT ASSET-BACKED BONDS

SERIES 2007

Page 2

fund installments and payments at maturity, and any Parity Payments (as defined in the Indenture), (ii) upon a Payment Default (as defined in the Indenture), the interest and the Bond Obligation (as defined in the Indenture) on Senior Bonds, and the interest and Bond Obligation on First Subordinate Bonds, Second Subordinate Bonds and Fully Subordinate Bonds (each as defined in the Indenture).

5. **Mandatory Clean Up Call Redemption:** Upon at least ten (10) Business Days prior written notice to the Provider, the Trustee shall have the right to terminate the Agreement, in whole or in part, in connection with a mandatory clean up call redemption of the Bonds (as provided for in the Indenture) or a Turbo Redemption (as defined in the Indenture) of the Bonds (as provided for in the Indenture). In connection with any such termination The Provider shall determine the Termination Amount and (i) if the Termination Amount is a negative number, the Provider shall promptly, but no later than one Business Day after notice that such amount is due, pay such amount, in immediately available funds, to the Trustee and (ii) if the Termination Amount is a positive number, the Provider may demand payment by the Trustee of the Termination Amount in which case the Trustee shall promptly, but no later than one Business Day after notice that such amount is due, pay, solely from funds available for such purpose pursuant to the terms of the Indenture in immediately available funds, the Termination Amount to the Provider. If any such amount is not paid when due, the party owing such amount shall pay interest on such amount for each date such amount is due but not paid at the Default Rate.

6. **Credit Event:**

In the event ratings are suspended, withdrawn or fall below "A3" by Moody's or "A-" by Standard & Poor's acceptable actions may include:

(i) assign and transfer the Agreement and its interests hereunder, at the Provider's expense, to a transferee, reasonably acceptable to the Trustee, the long-term unsecured debt of which is rated at least "A2" by Moody's and "A" by Standard and Poor's or whose performance under the Agreement is guaranteed by a guarantor whose long-term unsecured debt is so rated.

(ii) have obligations guaranteed by an entity the long-term unsecured debt of which is rated "A" by Standard & Poor's and "A2" by Moody's by a guarantee in a form reasonably acceptable to the Trustee (such acceptance not to be unreasonably withheld or delayed); or

(iii) deliver Permitted Collateral to the Trustee or third party custodian acceptable to the Trustee which collateral must be maintained at levels so that the ratio of the aggregate price for the Permitted Collateral obtained by the custodian from a generally recognized source selected by the custodian (the "Collateral Value") of the Permitted Collateral (in which the custodian has a first perfected security interest) to the Termination Amount will be 104% for Treasuries and GNMA's and 105% for FNMA's and FHLMC's (the "Required Ratio"). The custodian shall determine the Collateral Value of the Permitted Collateral at least weekly and provide the Trustee and the Provider written notice of such determination and, (i) if the ratio of the Collateral Value of the Permitted Collateral to the Termination Amount is less than the Required Ratio, the Provider shall, within two (2) Business Days of its

\$522,991,697

*MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY*

*TOBACCO SETTLEMENT ASSET-BACKED BONDS*

*SERIES 2007*

*Page 3*

receipt of such notice, deliver additional Permitted Collateral to the custodian; and (ii) if the ratio of the Collateral Value of the Permitted Collateral to the Termination Amount is greater than the Required Ratio, the custodian shall, within two (2) Business Days of demand from the Provider, deliver Permitted Collateral to the Provider, in either case so that the ratio of the Collateral Value of the Permitted Collateral to the Termination Amount at least equals the Required Ratio. All reasonable and customary fees and expenses incurred by the custodian in connection with the Agreement shall be paid by the Provider. "Permitted Collateral" means (i) (i) direct obligations of the United States Treasury including only notes, bonds, bills or certificates of indebtedness, (ii) Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA)) obligations or obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America.

## MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY

Tobacco Settlement Asset-Backed Bonds

Series 2007A

Exhibit A

<u>Deposit Date*</u>	<u>Bond Payment Date*</u>	<u>Scheduled Reserve Amount</u>
12/1/2008	6/1/2009	\$33,326,837.50
6/1/2009	12/1/2009	\$33,326,837.50
12/1/2009	6/1/2010	\$33,326,837.50
6/1/2010	12/1/2010	\$33,326,837.50
12/1/2010	6/1/2011	\$33,326,837.50
6/1/2011	12/1/2011	\$33,326,837.50
12/1/2011	6/1/2012	\$33,326,837.50
6/1/2012	12/1/2012	\$33,326,837.50
12/1/2012	6/1/2013	\$33,326,837.50
6/1/2013	12/1/2013	\$33,326,837.50
12/1/2013	6/1/2014	\$33,326,837.50
6/1/2014	12/1/2014	\$33,326,837.50
12/1/2014	6/1/2015	\$33,326,837.50
6/1/2015	12/1/2015	\$33,326,837.50
12/1/2015	6/1/2016	\$33,326,837.50
6/1/2016	12/1/2016	\$33,326,837.50
12/1/2016	6/1/2017	\$33,326,837.50
6/1/2017	12/1/2017	\$33,326,837.50
12/1/2017	6/1/2018	\$33,326,837.50
6/1/2018	12/1/2018	\$33,326,837.50
12/1/2018	6/1/2019	\$33,326,837.50
6/1/2019	12/1/2019	\$33,326,837.50
12/1/2019	6/1/2020	\$33,326,837.50
6/1/2020	12/1/2020	\$33,326,837.50
12/1/2020	6/1/2021	\$33,326,837.50
6/1/2021	12/1/2021	\$33,326,837.50
12/1/2021	6/1/2022	\$33,326,837.50
6/1/2022	12/1/2022	\$33,326,837.50
12/1/2022	6/1/2023	\$33,326,837.50
6/1/2023	12/1/2023	\$33,326,837.50
12/1/2023	6/1/2024	\$33,326,837.50
6/1/2024	12/1/2024	\$33,326,837.50
12/1/2024	6/1/2025	\$33,326,837.50
6/1/2025	12/1/2025	\$33,326,837.50
12/1/2025	6/1/2026	\$33,326,837.50
6/1/2026	12/1/2026	\$33,326,837.50
12/1/2026	6/1/2027	\$33,326,837.50
6/1/2027	12/1/2027	\$33,326,837.50
12/1/2027	6/1/2028	\$33,326,837.50

---

\*If any Deposit Date or Bond Payment Date specified above is not a Business Day, such date will be the immediately succeeding Business Day; provided, however, that with respect to any date specified as a Bond Payment Date, the determination of whether such date is a Business Day shall be made without giving effect to clause (d) of the definition of Business Day.

## MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY

Tobacco Settlement Asset-Backed Bonds

Series 2007A

Exhibit A

<u>Deposit Date</u> *	<u>Bond Payment Date</u> *	<u>Scheduled Reserve Amount</u>
6/1/2028	12/1/2028	\$33,326,837.50
12/1/2028	6/1/2029	\$33,326,837.50
6/1/2029	12/1/2029	\$33,326,837.50
12/1/2029	6/1/2030	\$33,326,837.50
6/1/2030	12/1/2030	\$33,326,837.50
12/1/2030	6/1/2031	\$33,326,837.50
6/1/2031	12/1/2031	\$33,326,837.50
12/1/2031	6/1/2032	\$33,326,837.50
6/1/2032	12/1/2032	\$33,326,837.50
12/1/2032	6/1/2033	\$33,326,837.50
6/1/2033	12/1/2033	\$33,326,837.50
12/1/2033	6/1/2034	\$33,326,837.50
6/1/2034	12/1/2034	\$33,326,837.50
12/1/2034	6/1/2035	\$33,326,837.50
6/1/2035	12/1/2035	\$33,326,837.50
12/1/2035	6/1/2036	\$33,326,837.50
6/1/2036	12/1/2036	\$33,326,837.50
12/1/2036	6/1/2037	\$33,326,837.50
6/1/2037	12/1/2037	\$33,326,837.50
12/1/2037	6/1/2038	\$33,326,837.50
6/1/2038	12/1/2038	\$33,326,837.50
12/1/2038	6/1/2039	\$33,326,837.50
6/1/2039	12/1/2039	\$33,326,837.50
12/1/2039	6/1/2040	\$33,326,837.50
6/1/2040	12/1/2040	\$33,326,837.50
12/1/2040	6/1/2041	\$33,326,837.50
6/1/2041	12/1/2041	\$33,326,837.50
12/1/2041	6/1/2042	\$33,326,837.50
6/1/2042	12/1/2042	\$33,326,837.50
12/1/2042	6/1/2043	\$33,326,837.50
6/1/2043	12/1/2043	\$33,326,837.50
12/1/2043	6/1/2044	\$33,326,837.50
6/1/2044	12/1/2044	\$33,326,837.50
12/1/2044	6/1/2045	\$33,326,837.50
6/1/2045	12/1/2045	\$33,326,837.50
12/1/2045	6/1/2046	\$33,326,837.50
6/1/2046	12/1/2046	\$33,326,837.50
12/1/2046	6/1/2047	\$33,326,837.50
6/1/2047	12/1/2047	\$33,326,837.50
12/1/2047	6/1/2048	\$33,326,837.50





**The PFM Group**

Public Financial Management, Inc.  
PFM Asset Management LLC  
PFM Advisors

08-13555-mg

Doc 20997

Filed 10/19/11

Entered 10/19/11 15:32:59

Main Document

Pg 25 of 42

One Keystone Plaza  
Suite 300  
N. Front & Market Streets  
Harrisburg, PA 17101

717 232-2723  
717 233-6073 fax  
717-232-7837 2<sup>nd</sup> Fax

\$522,991,697

MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY

TOBACCO SETTLEMENT ASSET-BACKED BONDS

SERIES 2007

SENIOR LIQUIDITY RESERVE ACCOUNT

FORWARD DELIVERY AGREEMENT

### **EXHIBIT B – FORM OF PROVIDER FACSIMILE QUOTE SHEET**

We have received and read the Request for Quotes, dated September 19, 2008, for the Senior Liquidity Reserve Account Agreement related to above-reference bonds (the “Bonds”). Our bid is as follows:

Payment Amount: \_\_\_\_\_

Payment to Provider: \_\_\_\_\_

Provider: \_\_\_\_\_

Long-Term Ratings:  
(Moody's/S&P) \_\_\_\_\_

Quotes must be submitted via phone to Monique Spyke of PFM Asset Management LLC at **2:30 p.m. Eastern Time on Friday, September 19, 2008**. Quotes must be confirmed via email at [spykem@pfm.com](mailto:spykem@pfm.com), or facsimile at (717) 232-7837.



The PFM Group

Asset Management  
PFM Asset Management LLC  
Harrisburg, PA

One Keystone Plaza  
Suite 300  
N. Front & Market Streets  
Harrisburg, PA 17101

717 232-2723  
717 233-6073 fax  
717 232-7837 2nd Fax

\$522,991,697  
MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY  
TOBACCO SETTLEMENT ASSET-BACKED BONDS  
SERIES 2007

SENIOR LIQUIDITY RESERVE ACCOUNT  
FORWARD DELIVERY AGREEMENT

**EXHIBIT B – FORM OF PROVIDER FACSIMILE QUOTE SHEET**

We have received and read the Request for Quotes, dated September 19, 2008, for the Senior Liquidity Reserve Account Agreement related to above-reference bonds (the "Bonds"). Our bid is as follows:

Payment Amount:

NA

Payment to Provider:

\$11,445,000 - Lehman pays Citi \*

Provider:

Citigroup Financial Products Inc.

Long-Term Ratings:  
(Moody's/S&P)

Aa3/AA-/AA- (Guarantee from Citigroup Inc.)

Quotes must be submitted via phone to Monique Spyke of PFM Asset Management LLC at **2:30 p.m. Eastern Time on Friday, September 19, 2008**. Quotes must be confirmed via email at [spykem@pfm.com](mailto:spykem@pfm.com), or facsimile at (717) 232-7837.

*\* Non-Actionable, Please see attached disclaimer.*

Michigan Tobacco Termination Disclaimer

All valuations are as of the valuation date indicated and represent an estimated termination value for the purposes of an isda termination process for each transaction listed herein. Termination valuations may be derived from broker quotations or from proprietary models that take into consideration estimates about relevant present and future market conditions as well as the size and liquidity of the position and any related actual or potential hedging transactions. Although the information is derived from sources believed to be reliable, we have not assumed any responsibility to independently verify. Valuations based upon other models or assumptions or calculated as of another date and time may yield significantly different results. Any of the valuations may be affected by our transactions either in similar or the underlying securities or other instrument(s) and/or be based on our own quotations. All valuations are provided for information purposes only as an accommodation without charge and are intended solely for your use.

Unless otherwise agreed in writing, Citigroup is under no obligation to agree with you to the early termination or assignment of any transaction. Any early termination or assignment of any transaction may take into consideration any market inputs Citigroup deems relevant to this transaction. Accordingly, in any such case, it is likely that the actual price, if any, at which Citigroup would be willing agree to the termination or assignment of any transaction will vary substantially from the valuation provided herewith.

We expressly disclaim any responsibility for (i) the accuracy of the models, market data input into such models or estimates used in deriving the valuations, (ii) any errors or omissions in computing or disseminating the valuations and (iii) any uses to which the valuations are put. Due to the varying size of bid-offer spreads, the termination valuation may be significantly higher (or lower) than the levels at which new transactions could be effected. These valuations may take into account such factors as the length of time that has elapsed since the transaction was entered into, potential reduction to us of market and other risks that may be realizable through an unwind, and other product pricing considerations relevant to the specific transaction which may lead us to forego the full profit potentially realizable if the transaction ran full term. Accordingly, these transactions may be valued at more attractive levels to you than we would quote to others or than would be available from other dealers. Further, these valuations do not represent (i) the actual prices at which new transactions could be entered into or (ii) the actual prices at which the existing transaction could be liquidated or unwound. These valuations may differ from the prices we use to value our positions on our books and records or for purposes of collateral calls.



**The PFM Group**

11240 F Street, Suite 300  
Harrisburg, PA 17101  
(717) 232-2723

One Keystone Plaza  
Suite 300  
N. Front & Market Streets  
Harrisburg, PA 17101

(717) 232-2723  
(717) 233-6033 fax  
(717) 232-7837 2nd Fax

\$522,991,697  
MICHIGAN TOBACCO SETTLEMENT FINANCE AUTHORITY  
TOBACCO SETTLEMENT ASSET-BACKED BONDS  
SERIES 2007

SENIOR LIQUIDITY RESERVE ACCOUNT  
FORWARD DELIVERY AGREEMENT

**EXHIBIT B – FORM OF PROVIDER FACSIMILE QUOTE SHEET**

We have received and read the Request for Quotes, dated September 19, 2008, for the Senior Liquidity Reserve Account Agreement related to above-reference bonds (the "Bonds"). Our bid is as follows:

Payment Amount: 4457,000 LEHMAN PAYS TRUSTEE

Payment to Provider: \_\_\_\_\_

Provider: \_\_\_\_\_

Long-Term Ratings:  
(Moody's/S&P)

A1/A+

Quotes must be submitted via phone to Monique Spyke of PFM Asset Management LLC at **2:30 p.m. Eastern Time on Friday, September 19, 2008**. Quotes must be confirmed via email at [spykem@pfm.com](mailto:spykem@pfm.com), or facsimile at (717) 232-7837.

Michigan Finance Authority

---

- B. Termination Amount Calculations
  - 1. Citigroup Financial Products, Inc.
  - 2. Morgan Stanley & Co, Inc.

Michigan Finance Authority

---

This page intentionally left blank.

---

PFM Asset Management LLC

**\$522,991,697**  
**Michigan Tobacco Settlement Finance Authority**  
**Tobacco Settlement Asset-Backed Bonds**  
**Series 2007**

**LEHMAN BROTHERS SPECIAL FINANCING INC.,**  
**Debt Service Reserve Fund Agreement Market Termination Analysis**  
**Citigroup Financial Products, Inc. - Spread to LIBOR**

**Forward Delivery Agreement Cash Flows**

Date	Original Cash Flows	Change In Cash Flows	Net Change in Cash Flows	LIBOR 0% Rates 9/19/2008	Spread To LIBOR Curve	Net Discount Rate	Present Value Factor	Present Value
09/19/08								
12/01/08	(33,326,837.50)	-	(33,326,838)	3.2268%	-1.1228%	2.1040%	0.9958	(33,187,625)
06/01/09	843,502.26	-	843,502	3.3930%	-1.1228%	2.2702%	0.9843	830,278
12/01/09	843,502.26	-	843,502	3.3118%	-1.1228%	2.1890%	0.9742	821,751
06/01/10	843,502.26	-	843,502	3.1648%	-1.1228%	2.0420%	0.9661	814,866
12/01/10	843,502.26	-	843,502	3.1426%	-1.1228%	2.0198%	0.9568	807,021
06/01/11	843,502.26	-	843,502	3.3091%	-1.1228%	2.1863%	0.9430	795,406
12/01/11	843,502.26	-	843,502	3.4925%	-1.1228%	2.3696%	0.9274	782,255
06/01/12	843,502.26	-	843,502	3.6010%	-1.1228%	2.4782%	0.9129	770,032
12/01/12	843,502.26	-	843,502	3.6804%	-1.1228%	2.5575%	0.8988	758,109
06/01/13	843,502.26	-	843,502	3.7602%	-1.1228%	2.6373%	0.8841	745,770
12/01/13	843,502.26	-	843,502	3.8374%	-1.1228%	2.7146%	0.8692	733,153
06/01/14	843,502.26	-	843,502	3.9078%	-1.1228%	2.7849%	0.8542	720,480
12/01/14	843,502.26	-	843,502	3.9725%	-1.1228%	2.8496%	0.8391	707,779
06/01/15	843,502.26	-	843,502	4.0316%	-1.1228%	2.9088%	0.8241	695,114
12/01/15	843,502.26	-	843,502	4.0867%	-1.1228%	2.9638%	0.8091	682,479
06/01/16	843,502.26	-	843,502	4.1377%	-1.1228%	3.0149%	0.7942	669,912
12/01/16	843,502.26	-	843,502	4.1851%	-1.1228%	3.0623%	0.7794	657,444
06/01/17	843,502.26	-	843,502	4.2287%	-1.1228%	3.1058%	0.7648	645,117
12/01/17	843,502.26	-	843,502	4.2691%	-1.1228%	3.1463%	0.7504	632,929
06/01/18	843,502.26	-	843,502	4.3062%	-1.1228%	3.1834%	0.7361	620,924
12/01/18	843,502.26	-	843,502	4.3405%	-1.1228%	3.2176%	0.7221	609,095
06/01/19	843,502.26	-	843,502	4.3718%	-1.1228%	3.2490%	0.7083	597,478
12/01/19	843,502.26	-	843,502	4.4006%	-1.1228%	3.2778%	0.6948	586,062
06/01/20	843,502.26	-	843,502	4.4270%	-1.1228%	3.3042%	0.6815	574,864
12/01/20	843,502.26	-	843,502	4.4511%	-1.1228%	3.3283%	0.6685	563,889
06/01/21	843,502.26	-	843,502	4.4729%	-1.1228%	3.3501%	0.6558	553,147
12/01/21	843,502.26	-	843,502	4.4929%	-1.1228%	3.3701%	0.6433	542,622
06/01/22	843,502.26	-	843,502	4.5111%	-1.1228%	3.3883%	0.6311	532,326
12/01/22	843,502.26	-	843,502	4.5278%	-1.1228%	3.4049%	0.6191	522,242
06/01/23	843,502.26	-	843,502	4.5429%	-1.1228%	3.4201%	0.6074	512,376
12/01/23	843,502.26	-	843,502	4.5569%	-1.1228%	3.4341%	0.5960	502,709
06/01/24	843,502.26	-	843,502	4.5698%	-1.1228%	3.4469%	0.5848	493,243
12/01/24	843,502.26	-	843,502	4.5815%	-1.1228%	3.4587%	0.5738	483,978
06/01/25	843,502.26	-	843,502	4.5922%	-1.1228%	3.4694%	0.5630	474,918
12/01/25	843,502.26	-	843,502	4.6020%	-1.1228%	3.4791%	0.5525	466,052
06/01/26	843,502.26	-	843,502	4.6107%	-1.1228%	3.4879%	0.5422	457,388
12/01/26	843,502.26	-	843,502	4.6186%	-1.1228%	3.4957%	0.5322	448,917
06/01/27	843,502.26	-	843,502	4.6255%	-1.1228%	3.5027%	0.5224	440,641
12/01/27	843,502.26	-	843,502	4.6317%	-1.1228%	3.5088%	0.5128	432,553
06/01/28	843,502.26	-	843,502	4.6371%	-1.1228%	3.5142%	0.5034	424,653
12/01/28	843,502.26	-	843,502	4.6417%	-1.1228%	3.5189%	0.4943	416,936
06/01/29	843,502.26	-	843,502	4.6456%	-1.1228%	3.5228%	0.4854	409,402
12/01/29	843,502.26	-	843,502	4.6489%	-1.1228%	3.5260%	0.4766	402,043
06/01/30	843,502.26	-	843,502	4.6515%	-1.1228%	3.5286%	0.4681	394,857
12/01/30	843,502.26	-	843,502	4.6535%	-1.1228%	3.5307%	0.4598	387,839
06/01/31	843,502.26	-	843,502	4.6550%	-1.1228%	3.5321%	0.4517	380,987
12/01/31	843,502.26	-	843,502	4.6559%	-1.1228%	3.5331%	0.4437	374,295
06/01/32	843,502.26	-	843,502	4.6564%	-1.1228%	3.5335%	0.4360	367,758
12/01/32	843,502.26	-	843,502	4.6564%	-1.1228%	3.5335%	0.4284	361,373
06/01/33	843,502.26	-	843,502	4.6560%	-1.1228%	3.5331%	0.4210	355,135
12/01/33	843,502.26	-	843,502	4.6552%	-1.1228%	3.5323%	0.4138	349,039
06/01/34	843,502.26	-	843,502	4.6540%	-1.1228%	3.5312%	0.4067	343,079
12/01/34	843,502.26	-	843,502	4.6526%	-1.1228%	3.5298%	0.3998	337,253

**\$522,991,697**  
**Michigan Tobacco Settlement Finance Authority**  
**Tobacco Settlement Asset-Backed Bonds**  
**Series 2007**

**LEHMAN BROTHERS SPECIAL FINANCING INC.,**  
**Debt Service Reserve Fund Agreement Market Termination Analysis**  
**Citigroup Financial Products, Inc. - Spread to LIBOR**

**Forward Delivery Agreement Cash Flows**

Date	Original Cash Flows	Change In Cash Flows	Net Change in Cash Flows	LIBOR 0% Rates 9/19/2008	Spread To LIBOR Curve	Net Discount Rate	Present Value Factor	Present Value
06/01/35	843,502.26	-	843,502	4.6509%	-1.1228%	3.5280%	0.3931	331,553
12/01/35	843,502.26	-	843,502	4.6489%	-1.1228%	3.5261%	0.3865	325,976
06/01/36	843,502.26	-	843,502	4.6467%	-1.1228%	3.5239%	0.3800	320,518
12/01/36	843,502.26	-	843,502	4.6444%	-1.1228%	3.5216%	0.3736	315,171
06/01/37	843,502.26	-	843,502	4.6420%	-1.1228%	3.5191%	0.3674	309,931
12/01/37	843,502.26	-	843,502	4.6394%	-1.1228%	3.5166%	0.3613	304,795
06/01/38	843,502.26	-	843,502	4.6368%	-1.1228%	3.5140%	0.3554	299,756
12/01/38	843,502.26	-	843,502	4.6342%	-1.1228%	3.5114%	0.3495	294,810
06/01/39	843,502.26	-	843,502	4.6316%	-1.1228%	3.5088%	0.3437	289,951
12/01/39	843,502.26	-	843,502	4.6290%	-1.1228%	3.5062%	0.3381	285,177
06/01/40	843,502.26	-	843,502	4.6265%	-1.1228%	3.5037%	0.3325	280,480
12/01/40	843,502.26	-	843,502	4.6242%	-1.1228%	3.5013%	0.3270	275,857
06/01/41	843,502.26	-	843,502	4.6220%	-1.1228%	3.4992%	0.3216	271,302
12/01/41	843,502.26	-	843,502	4.6200%	-1.1228%	3.4971%	0.3163	266,812
06/01/42	843,502.26	-	843,502	4.6182%	-1.1228%	3.4954%	0.3111	262,381
12/01/42	843,502.26	-	843,502	4.6167%	-1.1228%	3.4939%	0.3059	258,005
06/01/43	843,502.26	-	843,502	4.6155%	-1.1228%	3.4926%	0.3007	253,680
12/01/43	843,502.26	-	843,502	4.6146%	-1.1228%	3.4918%	0.2957	249,402
06/01/44	843,502.26	-	843,502	4.6141%	-1.1228%	3.4913%	0.2907	245,166
12/01/44	843,502.26	-	843,502	4.6140%	-1.1228%	3.4912%	0.2857	240,968
06/01/45	843,502.26	-	843,502	4.6143%	-1.1228%	3.4915%	0.2807	236,804
12/01/45	843,502.26	-	843,502	4.6152%	-1.1228%	3.4923%	0.2758	232,671
06/01/46	843,502.26	-	843,502	4.6165%	-1.1228%	3.4937%	0.2710	228,564
12/01/46	843,502.26	-	843,502	4.6184%	-1.1228%	3.4956%	0.2661	224,480
06/01/47	843,502.26	-	843,502	4.6209%	-1.1228%	3.4980%	0.2613	220,417
12/01/47	843,502.26	-	843,502	4.6240%	-1.1228%	3.5012%	0.2565	216,369
06/01/48	34,170,339.76	-	34,170,340	4.6278%	-1.1228%	3.5049%	0.2517	8,601,658
	<b>66,636,678</b>	<b>-</b>	<b>66,636,678</b>					<b>11,445,000</b>

( ) Denotes payment to Agreement Provider



**\$522,991,697**  
**Michigan Tobacco Settlement Finance Authority**  
**Tobacco Settlement Asset-Backed Bonds**  
**Series 2007**

**LEHMAN BROTHERS SPECIAL FINANCING INC.,**  
**Debt Service Reserve Fund Agreement Market Termination Analysis**  
**Morgan Stanley - Spread to LIBOR**

**Forward Delivery Agreement Cash Flows**

Date	Original Cash Flows	Change In Cash Flows	Net Change in Cash Flows	LIBOR 0% Rates 9/19/2008	Spread To LIBOR Curve	Net Discount Rate	Present Value Factor	Present Value
09/19/08								
12/01/08	(33,326,837.50)	-	(33,326,838)	3.2268%	<b>0.4267%</b>	3.6535%	0.9928	(33,086,389)
06/01/09	843,502.26	-	843,502	3.3930%	0.4267%	3.8197%	0.9739	821,455
12/01/09	843,502.26	-	843,502	3.3118%	0.4267%	3.7385%	0.9565	806,832
06/01/10	843,502.26	-	843,502	3.1648%	0.4267%	3.5915%	0.9413	793,972
12/01/10	843,502.26	-	843,502	3.1426%	0.4267%	3.5693%	0.9251	780,340
06/01/11	843,502.26	-	843,502	3.3091%	0.4267%	3.7358%	0.9049	763,281
12/01/11	843,502.26	-	843,502	3.4925%	0.4267%	3.9192%	0.8832	744,984
06/01/12	843,502.26	-	843,502	3.6010%	0.4267%	4.0277%	0.8628	727,793
12/01/12	843,502.26	-	843,502	3.6804%	0.4267%	4.1071%	0.8430	711,100
06/01/13	843,502.26	-	843,502	3.7602%	0.4267%	4.1869%	0.8230	694,235
12/01/13	843,502.26	-	843,502	3.8374%	0.4267%	4.2641%	0.8030	677,331
06/01/14	843,502.26	-	843,502	3.9078%	0.4267%	4.3345%	0.7832	660,593
12/01/14	843,502.26	-	843,502	3.9725%	0.4267%	4.3992%	0.7635	644,046
06/01/15	843,502.26	-	843,502	4.0316%	0.4267%	4.4583%	0.7442	627,745
12/01/15	843,502.26	-	843,502	4.0867%	0.4267%	4.5134%	0.7252	611,682
06/01/16	843,502.26	-	843,502	4.1377%	0.4267%	4.5644%	0.7064	595,887
12/01/16	843,502.26	-	843,502	4.1851%	0.4267%	4.6118%	0.6881	580,384
06/01/17	843,502.26	-	843,502	4.2287%	0.4267%	4.6554%	0.6701	565,205
12/01/17	843,502.26	-	843,502	4.2691%	0.4267%	4.6958%	0.6524	550,343
06/01/18	843,502.26	-	843,502	4.3062%	0.4267%	4.7329%	0.6352	535,832
12/01/18	843,502.26	-	843,502	4.3405%	0.4267%	4.7672%	0.6184	521,660
06/01/19	843,502.26	-	843,502	4.3718%	0.4267%	4.7985%	0.6021	507,851
12/01/19	843,502.26	-	843,502	4.4006%	0.4267%	4.8273%	0.5861	494,390
06/01/20	843,502.26	-	843,502	4.4270%	0.4267%	4.8537%	0.5706	481,286
12/01/20	843,502.26	-	843,502	4.4511%	0.4267%	4.8778%	0.5555	468,537
06/01/21	843,502.26	-	843,502	4.4729%	0.4267%	4.8996%	0.5408	456,145
12/01/21	843,502.26	-	843,502	4.4929%	0.4267%	4.9196%	0.5265	444,090
06/01/22	843,502.26	-	843,502	4.5111%	0.4267%	4.9378%	0.5126	432,378
12/01/22	843,502.26	-	843,502	4.5278%	0.4267%	4.9545%	0.4991	420,987
06/01/23	843,502.26	-	843,502	4.5429%	0.4267%	4.9696%	0.4860	409,918
12/01/23	843,502.26	-	843,502	4.5569%	0.4267%	4.9836%	0.4732	399,150
06/01/24	843,502.26	-	843,502	4.5698%	0.4267%	4.9965%	0.4608	388,679
12/01/24	843,502.26	-	843,502	4.5815%	0.4267%	5.0082%	0.4487	378,501
06/01/25	843,502.26	-	843,502	4.5922%	0.4267%	5.0189%	0.4370	368,613
12/01/25	843,502.26	-	843,502	4.6020%	0.4267%	5.0287%	0.4256	359,002
06/01/26	843,502.26	-	843,502	4.6107%	0.4267%	5.0374%	0.4145	349,670
12/01/26	843,502.26	-	843,502	4.6186%	0.4267%	5.0453%	0.4038	340,603
06/01/27	843,502.26	-	843,502	4.6255%	0.4267%	5.0522%	0.3934	331,801
12/01/27	843,502.26	-	843,502	4.6317%	0.4267%	5.0584%	0.3832	323,252
06/01/28	843,502.26	-	843,502	4.6371%	0.4267%	5.0638%	0.3734	314,953
12/01/28	843,502.26	-	843,502	4.6417%	0.4267%	5.0684%	0.3638	306,895
06/01/29	843,502.26	-	843,502	4.6456%	0.4267%	5.0723%	0.3546	299,074
12/01/29	843,502.26	-	843,502	4.6489%	0.4267%	5.0756%	0.3456	291,480
06/01/30	843,502.26	-	843,502	4.6515%	0.4267%	5.0782%	0.3368	284,109
12/01/30	843,502.26	-	843,502	4.6535%	0.4267%	5.0802%	0.3283	276,952
06/01/31	843,502.26	-	843,502	4.6550%	0.4267%	5.0817%	0.3201	270,004
12/01/31	843,502.26	-	843,502	4.6559%	0.4267%	5.0826%	0.3121	263,257
06/01/32	843,502.26	-	843,502	4.6564%	0.4267%	5.0831%	0.3043	256,706
12/01/32	843,502.26	-	843,502	4.6564%	0.4267%	5.0831%	0.2968	250,343
06/01/33	843,502.26	-	843,502	4.6560%	0.4267%	5.0827%	0.2895	244,162
12/01/33	843,502.26	-	843,502	4.6552%	0.4267%	5.0819%	0.2823	238,158
06/01/34	843,502.26	-	843,502	4.6540%	0.4267%	5.0807%	0.2754	232,322
12/01/34	843,502.26	-	843,502	4.6526%	0.4267%	5.0793%	0.2687	226,650

**\$522,991,697**  
**Michigan Tobacco Settlement Finance Authority**  
**Tobacco Settlement Asset-Backed Bonds**  
**Series 2007**

**LEHMAN BROTHERS SPECIAL FINANCING INC.,**  
**Debt Service Reserve Fund Agreement Market Termination Analysis**  
**Morgan Stanley - Spread to LIBOR**

**Forward Delivery Agreement Cash Flows**

Date	Original Cash Flows	Change In Cash Flows	Net Change in Cash Flows	LIBOR 0% Rates 9/19/2008	Spread To LIBOR Curve	Net Discount Rate	Present Value Factor	Present Value
06/01/35	843,502.26	-	843,502	4.6509%	0.4267%	5.0776%	0.2622	221,135
12/01/35	843,502.26	-	843,502	4.6489%	0.4267%	5.0756%	0.2558	215,772
06/01/36	843,502.26	-	843,502	4.6467%	0.4267%	5.0734%	0.2496	210,555
12/01/36	843,502.26	-	843,502	4.6444%	0.4267%	5.0711%	0.2436	205,478
06/01/37	843,502.26	-	843,502	4.6420%	0.4267%	5.0687%	0.2377	200,534
12/01/37	843,502.26	-	843,502	4.6394%	0.4267%	5.0661%	0.2320	195,719
06/01/38	843,502.26	-	843,502	4.6368%	0.4267%	5.0635%	0.2265	191,028
12/01/38	843,502.26	-	843,502	4.6342%	0.4267%	5.0609%	0.2210	186,455
06/01/39	843,502.26	-	843,502	4.6316%	0.4267%	5.0583%	0.2158	181,995
12/01/39	843,502.26	-	843,502	4.6290%	0.4267%	5.0557%	0.2106	177,645
06/01/40	843,502.26	-	843,502	4.6265%	0.4267%	5.0532%	0.2056	173,398
12/01/40	843,502.26	-	843,502	4.6242%	0.4267%	5.0509%	0.2007	169,250
06/01/41	843,502.26	-	843,502	4.6220%	0.4267%	5.0487%	0.1958	165,197
12/01/41	843,502.26	-	843,502	4.6200%	0.4267%	5.0467%	0.1911	161,234
06/01/42	843,502.26	-	843,502	4.6182%	0.4267%	5.0449%	0.1866	157,357
12/01/42	843,502.26	-	843,502	4.6167%	0.4267%	5.0434%	0.1821	153,563
06/01/43	843,502.26	-	843,502	4.6155%	0.4267%	5.0422%	0.1776	149,848
12/01/43	843,502.26	-	843,502	4.6146%	0.4267%	5.0413%	0.1733	146,207
06/01/44	843,502.26	-	843,502	4.6141%	0.4267%	5.0408%	0.1691	142,637
12/01/44	843,502.26	-	843,502	4.6140%	0.4267%	5.0407%	0.1649	139,135
06/01/45	843,502.26	-	843,502	4.6143%	0.4267%	5.0410%	0.1609	135,698
12/01/45	843,502.26	-	843,502	4.6152%	0.4267%	5.0419%	0.1569	132,322
06/01/46	843,502.26	-	843,502	4.6165%	0.4267%	5.0432%	0.1529	129,005
12/01/46	843,502.26	-	843,502	4.6184%	0.4267%	5.0451%	0.1491	125,743
06/01/47	843,502.26	-	843,502	4.6209%	0.4267%	5.0476%	0.1453	122,535
12/01/47	843,502.26	-	843,502	4.6240%	0.4267%	5.0507%	0.1415	119,376
06/01/48	34,170,339.76	-	34,170,340	4.6278%	0.4267%	5.0545%	0.1378	4,709,952
	<b>66,636,678</b>	<b>-</b>	<b>66,636,678</b>					<b>457,000</b>

( ) Denotes payment to Agreement Provider

Michigan Finance Authority

---

C. LIBOR Curve

Michigan Finance Authority

---

This page intentionally left blank.

---

PFM Asset Management LLC

**Curve Dated 9/19/08**  
**Settlement 9/19/08**

Zero Curve from  
MMKT & Swaps

	<b>Date Array</b>	<b>Zero Rate (continuous)</b>
1 Week	9/29/08	4.3375%
1 Month	10/22/08	3.1875%
2 Month	11/22/08	3.1925%
3 Months	12/22/08	3.2037%
4 Months	1/22/09	3.2838%
5 Months	2/22/09	3.3400%
6 Months	3/22/09	3.3850%
9 Months	6/22/09	3.3812%
1 Year	9/22/09	3.3512%
2 Years	9/22/10	3.1227%
3 Years	9/22/11	3.4316%
4 Years	9/22/12	3.6502%
5 Years	9/22/13	3.8086%
7 Years	9/22/15	4.0661%
10 Years	9/22/18	4.3277%
15 Years	9/22/23	4.5517%
20 Years	9/22/28	4.6400%
30 Years	9/22/38	4.6352%

Michigan Finance Authority

---

This page intentionally left blank.

---

PFM Asset Management LLC

Michigan Finance Authority

---

D. Application of DEPFA Spread to Remaining Cash Flows

Michigan Finance Authority

---

This page intentionally left blank.

---

PFM Asset Management LLC



**\$522,991,697**  
**Michigan Tobacco Settlement Finance Authority**  
**Tobacco Settlement Asset-Backed Bonds**  
**Series 2007**

**LEHMAN BROTHERS SPECIAL FINANCING INC.,**  
**Debt Service Reserve Fund Agreement Market Termination Analysis**  
**Application of DEPFA Spread to Remaining Cash Flows**

**Forward Delivery Agreement Cash Flows**

Date	Original Cash Flows	Change In Cash Flows	Net Change in Cash Flows	LIBOR 0% Rates 9/22/2008	Spread To LIBOR Curve	Net Discount Rate	Present Value Factor	Present Value
09/19/08								
12/01/08	(33,326,837.50)	-	(33,326,838)	3.2268%	<b>-0.2652%</b>	2.9615%	0.9941	(33,131,462)
06/01/09	843,502.26	-	843,502	3.3930%	-0.2652%	3.1277%	0.9785	825,375
12/01/09	843,502.26	-	843,502	3.3118%	-0.2652%	3.0466%	0.9644	813,446
06/01/10	843,502.26	-	843,502	3.1648%	-0.2652%	2.8996%	0.9522	803,215
12/01/10	843,502.26	-	843,502	3.1426%	-0.2652%	2.8774%	0.9391	792,119
06/01/11	843,502.26	-	843,502	3.3091%	-0.2652%	3.0439%	0.9217	777,432
12/01/11	843,502.26	-	843,502	3.4925%	-0.2652%	3.2272%	0.9026	761,367
06/01/12	843,502.26	-	843,502	3.6010%	-0.2652%	3.3358%	0.8848	746,321
12/01/12	843,502.26	-	843,502	3.6804%	-0.2652%	3.4151%	0.8674	731,676
06/01/13	843,502.26	-	843,502	3.7602%	-0.2652%	3.4949%	0.8497	716,744
12/01/13	843,502.26	-	843,502	3.8374%	-0.2652%	3.5722%	0.8318	701,660
06/01/14	843,502.26	-	843,502	3.9078%	-0.2652%	3.6425%	0.8140	686,638
12/01/14	843,502.26	-	843,502	3.9725%	-0.2652%	3.7072%	0.7963	671,704
06/01/15	843,502.26	-	843,502	4.0316%	-0.2652%	3.7664%	0.7788	656,919
12/01/15	843,502.26	-	843,502	4.0867%	-0.2652%	3.8214%	0.7614	642,274
06/01/16	843,502.26	-	843,502	4.1377%	-0.2652%	3.8725%	0.7443	627,805
12/01/16	843,502.26	-	843,502	4.1851%	-0.2652%	3.9199%	0.7274	613,539
06/01/17	843,502.26	-	843,502	4.2287%	-0.2652%	3.9634%	0.7107	599,512
12/01/17	843,502.26	-	843,502	4.2691%	-0.2652%	4.0039%	0.6944	585,721
06/01/18	843,502.26	-	843,502	4.3062%	-0.2652%	4.0410%	0.6784	572,205
12/01/18	843,502.26	-	843,502	4.3405%	-0.2652%	4.0752%	0.6627	558,954
06/01/19	843,502.26	-	843,502	4.3718%	-0.2652%	4.1065%	0.6473	545,996
12/01/19	843,502.26	-	843,502	4.4006%	-0.2652%	4.1354%	0.6323	533,320
06/01/20	843,502.26	-	843,502	4.4270%	-0.2652%	4.1618%	0.6176	520,939
12/01/20	843,502.26	-	843,502	4.4511%	-0.2652%	4.1858%	0.6033	508,853
06/01/21	843,502.26	-	843,502	4.4729%	-0.2652%	4.2077%	0.5893	497,069
12/01/21	843,502.26	-	843,502	4.4929%	-0.2652%	4.2277%	0.5757	485,569
06/01/22	843,502.26	-	843,502	4.5111%	-0.2652%	4.2459%	0.5624	474,360
12/01/22	843,502.26	-	843,502	4.5278%	-0.2652%	4.2625%	0.5494	463,424
06/01/23	843,502.26	-	843,502	4.5429%	-0.2652%	4.2777%	0.5368	452,765
12/01/23	843,502.26	-	843,502	4.5569%	-0.2652%	4.2917%	0.5244	442,362
06/01/24	843,502.26	-	843,502	4.5698%	-0.2652%	4.3045%	0.5124	432,214
12/01/24	843,502.26	-	843,502	4.5815%	-0.2652%	4.3163%	0.5007	422,318
06/01/25	843,502.26	-	843,502	4.5922%	-0.2652%	4.3270%	0.4892	412,676
12/01/25	843,502.26	-	843,502	4.6020%	-0.2652%	4.3367%	0.4781	403,275
06/01/26	843,502.26	-	843,502	4.6107%	-0.2652%	4.3455%	0.4672	394,119
12/01/26	843,502.26	-	843,502	4.6186%	-0.2652%	4.3533%	0.4567	385,198
06/01/27	843,502.26	-	843,502	4.6255%	-0.2652%	4.3603%	0.4464	376,513
12/01/27	843,502.26	-	843,502	4.6317%	-0.2652%	4.3664%	0.4363	368,053
06/01/28	843,502.26	-	843,502	4.6371%	-0.2652%	4.3718%	0.4266	359,816
12/01/28	843,502.26	-	843,502	4.6417%	-0.2652%	4.3765%	0.4171	351,796
06/01/29	843,502.26	-	843,502	4.6456%	-0.2652%	4.3804%	0.4078	343,991
12/01/29	843,502.26	-	843,502	4.6489%	-0.2652%	4.3836%	0.3988	336,391
06/01/30	843,502.26	-	843,502	4.6515%	-0.2652%	4.3862%	0.3900	328,993
12/01/30	843,502.26	-	843,502	4.6535%	-0.2652%	4.3883%	0.3815	321,791
06/01/31	843,502.26	-	843,502	4.6550%	-0.2652%	4.3897%	0.3732	314,779
12/01/31	843,502.26	-	843,502	4.6559%	-0.2652%	4.3907%	0.3651	307,953
06/01/32	843,502.26	-	843,502	4.6564%	-0.2652%	4.3911%	0.3572	301,305
12/01/32	843,502.26	-	843,502	4.6564%	-0.2652%	4.3911%	0.3495	294,832
06/01/33	843,502.26	-	843,502	4.6560%	-0.2652%	4.3907%	0.3421	288,526
12/01/33	843,502.26	-	843,502	4.6552%	-0.2652%	4.3899%	0.3348	282,384
06/01/34	843,502.26	-	843,502	4.6540%	-0.2652%	4.3888%	0.3277	276,397
12/01/34	843,502.26	-	843,502	4.6526%	-0.2652%	4.3873%	0.3208	270,563

**\$522,991,697**  
**Michigan Tobacco Settlement Finance Authority**  
**Tobacco Settlement Asset-Backed Bonds**  
**Series 2007**

**LEHMAN BROTHERS SPECIAL FINANCING INC.,**  
**Debt Service Reserve Fund Agreement Market Termination Analysis**  
**Application of DEPFA Spread to Remaining Cash Flows**

**Forward Delivery Agreement Cash Flows**

Date	Original Cash Flows	Change In Cash Flows	Net Change in Cash Flows	LIBOR 0% Rates 9/22/2008	Spread To LIBOR Curve	Net Discount Rate	Present Value Factor	Present Value
06/01/35	843,502.26	-	843,502	4.6509%	-0.2652%	4.3856%	0.3140	264,873
12/01/35	843,502.26	-	843,502	4.6489%	-0.2652%	4.3837%	0.3074	259,325
06/01/36	843,502.26	-	843,502	4.6467%	-0.2652%	4.3815%	0.3010	253,912
12/01/36	843,502.26	-	843,502	4.6444%	-0.2652%	4.3792%	0.2948	248,628
06/01/37	843,502.26	-	843,502	4.6420%	-0.2652%	4.3767%	0.2886	243,468
12/01/37	843,502.26	-	843,502	4.6394%	-0.2652%	4.3742%	0.2827	238,428
06/01/38	843,502.26	-	843,502	4.6368%	-0.2652%	4.3716%	0.2768	233,501
12/01/38	843,502.26	-	843,502	4.6342%	-0.2652%	4.3690%	0.2711	228,684
06/01/39	843,502.26	-	843,502	4.6316%	-0.2652%	4.3664%	0.2655	223,970
12/01/39	843,502.26	-	843,502	4.6290%	-0.2652%	4.3638%	0.2601	219,357
06/01/40	843,502.26	-	843,502	4.6265%	-0.2652%	4.3613%	0.2547	214,839
12/01/40	843,502.26	-	843,502	4.6242%	-0.2652%	4.3589%	0.2494	210,410
06/01/41	843,502.26	-	843,502	4.6220%	-0.2652%	4.3568%	0.2443	206,067
12/01/41	843,502.26	-	843,502	4.6200%	-0.2652%	4.3547%	0.2392	201,805
06/01/42	843,502.26	-	843,502	4.6182%	-0.2652%	4.3530%	0.2343	197,620
12/01/42	843,502.26	-	843,502	4.6167%	-0.2652%	4.3515%	0.2294	193,509
06/01/43	843,502.26	-	843,502	4.6155%	-0.2652%	4.3502%	0.2246	189,466
12/01/43	843,502.26	-	843,502	4.6146%	-0.2652%	4.3494%	0.2199	185,489
06/01/44	843,502.26	-	843,502	4.6141%	-0.2652%	4.3489%	0.2153	181,573
12/01/44	843,502.26	-	843,502	4.6140%	-0.2652%	4.3488%	0.2107	177,715
06/01/45	843,502.26	-	843,502	4.6143%	-0.2652%	4.3491%	0.2062	173,912
12/01/45	843,502.26	-	843,502	4.6152%	-0.2652%	4.3499%	0.2017	170,159
06/01/46	843,502.26	-	843,502	4.6165%	-0.2652%	4.3513%	0.1973	166,455
12/01/46	843,502.26	-	843,502	4.6184%	-0.2652%	4.3532%	0.1930	162,795
06/01/47	843,502.26	-	843,502	4.6209%	-0.2652%	4.3556%	0.1887	159,178
12/01/47	843,502.26	-	843,502	4.6240%	-0.2652%	4.3587%	0.1845	155,600
06/01/48	34,170,339.76	-	34,170,340	4.6278%	-0.2652%	4.3625%	0.1803	6,159,877
	<b>66,636,678</b>	<b>-</b>	<b>66,636,678</b>					<b>4,772,320</b>

(-) Denotes payment to Agreement Provider